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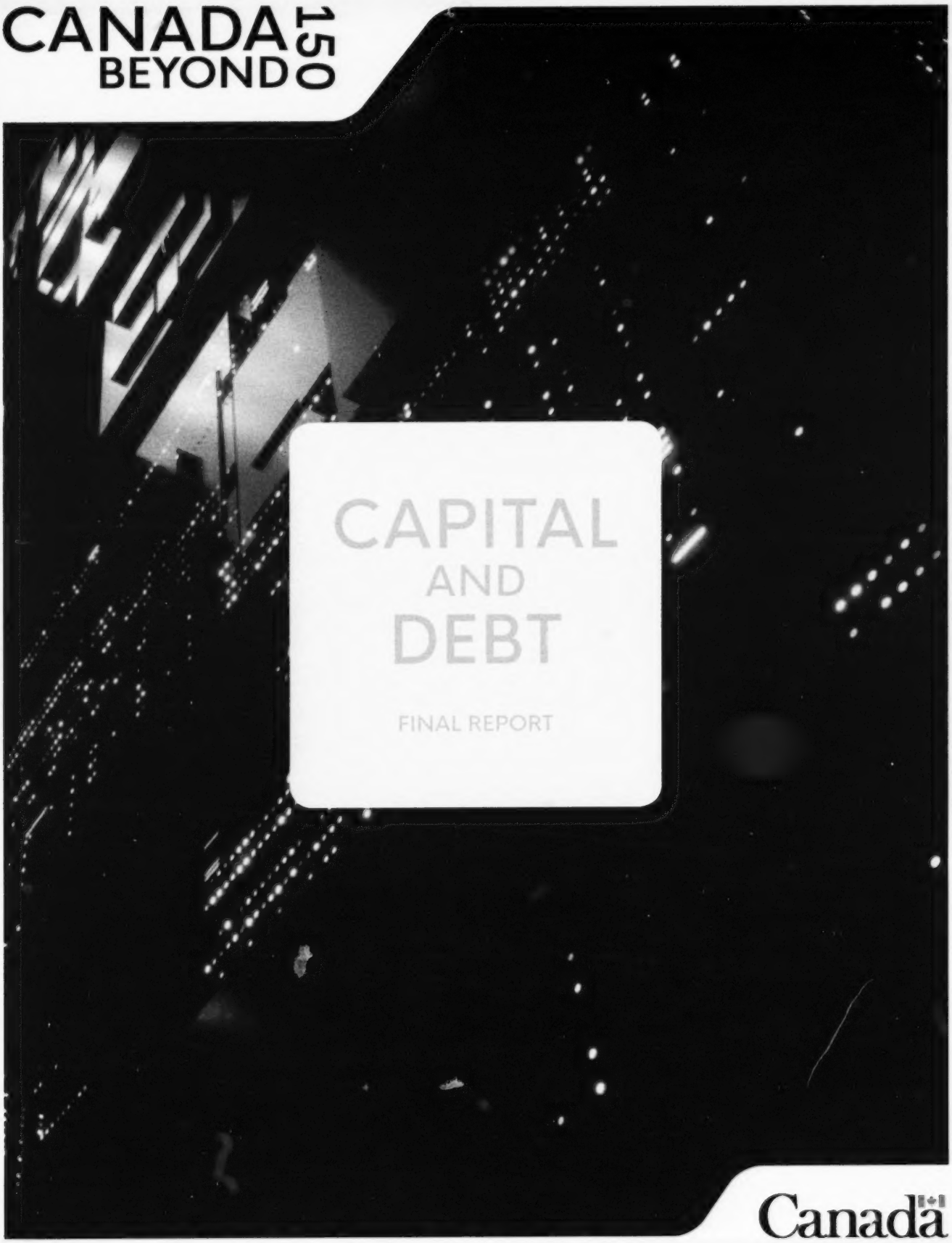

CAPITAL AND DEBT

FINAL REPORT

Canada

CAPITAL AND DEBT

This document does not represent an official policy position of the Government of Canada. Instead, it records the work of a sub-group of new public servants who participated in Canada Beyond 150, a professional development program co-championed by the Privy Council Office and Policy Horizons Canada. The program was designed to support the development of new public servants, and to drive a culture change within the public service. The participants were invited to use foresight, design thinking and engagement tools to explore policy issues relating to diversity and inclusion.

Canada Beyond 150's Capital and Debt research team explored the future of ownership. The team looked at how accessing services, rather than conventional ownership, could benefit all Canadians. Its proposed policy recommendations include measures that could drive the development of new types of assets, and potentially lead Canadians to participate in the access economy.

CAPITAL AND DEBT TODAY

Many Canadians are now deeply in debt. In 2017, the average Canadian household had a debt-to-income ratio of 167.8%, with 7.9% of them at 350% or greater[1]. This higher debt seems to be connected to the decline in labour's share of national productivity. Wages have not gone up as quickly as the cost of housing, food, education and care. At the expense of their savings, Canadians service mortgage debt, car loans, credit cards, and lines of credits as sources of debt. Nearly 50% of Canadian households live paycheck to paycheck, and are more likely to fall into arrears from unexpected costs or sudden income disruption.

Governments, agencies, and non-government organizations offer support and programs to help Canadians manage debt and plan for their financial well-being. These include information provided by the Financial Consumer Agency of Canada on financial literacy to the Canada Pension Plan, and Learning Bond to support retirement and post-secondary education.

These supports offer help for Canadians to overcome challenges and achieve prosperity. Yet Canadians form fewer assets, and have higher debt levels since the post-2008 financial crisis. Future businesses and households, retraining and reproduction are all needed for economic growth, but respond negatively to high debt levels.

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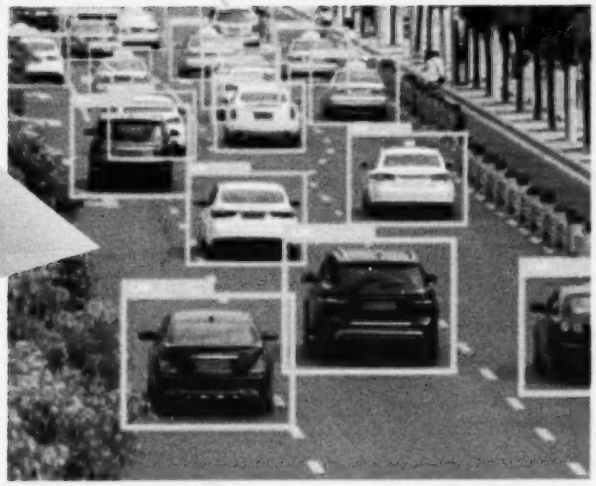
1 Cateau, Gino et. al. Indebted Households and Potential Vulnerabilities for the Canadian Financial System: A MicroData Analysis, Bank of Canada, Financial System Review, December 2015, p. 53



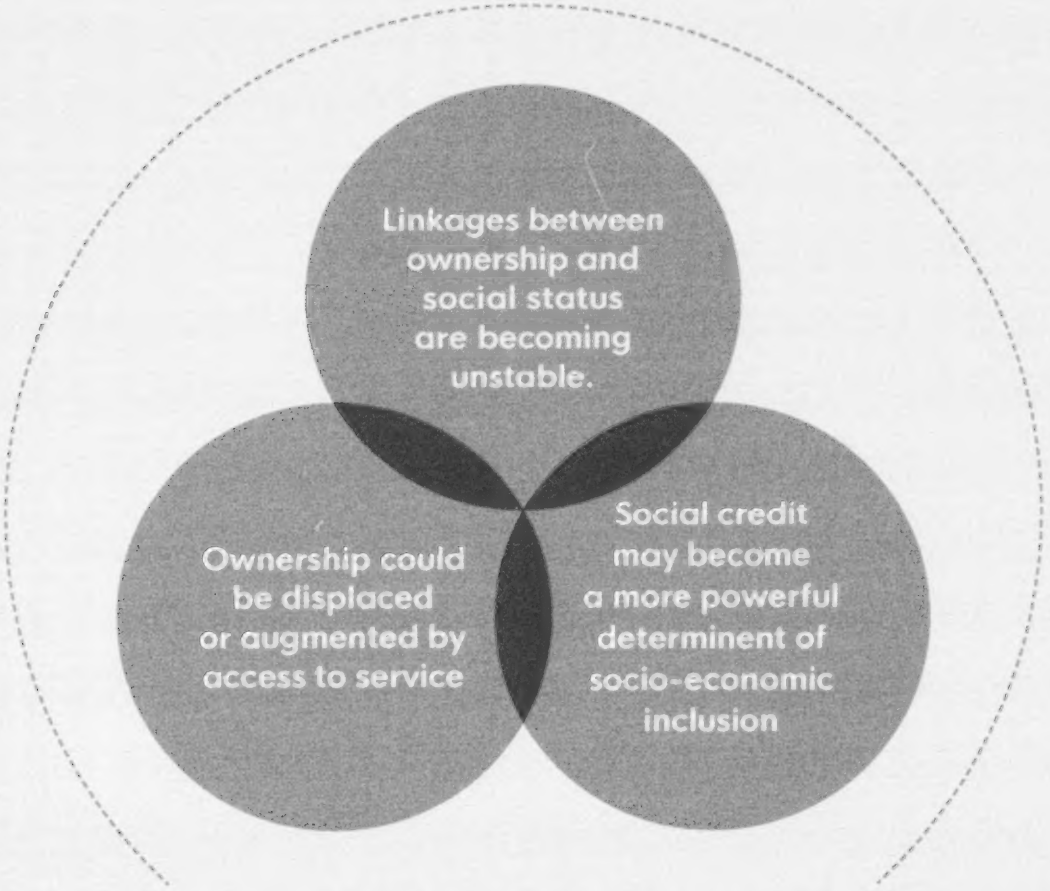
Automation, the growth of short-term contracts, and global merging of wages could continue the downward pressure on wages in most Western nations. Because of this, policy makers should explore how Canadians can cut costs and improve their finances by using new access economy platforms, peer-to-peer lending, and new asset classes. This report considers how emerging technologies and social practices might reshape the future of asset formation in Canada by 2030, and the policy interventions needed to help the government meet its objectives of encouraging inclusive economic growth and social inclusion. We start by offering three main insights:

Access to services could displace ownership: Individuals are using digital technologies to access "solutions" rather than owning assets. In countries such as India, some forms of ownership (like cars) may be leap-frogged entirely. In China, the transaction volume of the access economy topped $500 billion USD in 2016, a 103% increase over 2015. Unlike the traditional economy, the access economy uses new technologies that let individuals rent out goods or services that they own, such as clothing, cars, rooms in houses, parking spots, tools, etc. This has made it easy to rent a product for a short period of time, and increased the goods and services we can access on demand.

If widely adopted, the access economy could free Canadians from having to buy goods, especially those that need financing. Consequently, Canadians could have more liquid capital, less debt, and potentially access to higher quality products. This could be useful in helping Canadian households lower their debt and avoid extreme debt. With fewer assets, Canadians could lack the collateral to access affordable credit. Depending on how far this new access model displaces ownership, an individual may no longer own their lifestyle–instead they might effectively rent it. This new model could either speed up the concentration of power and wealth, or break it up. The result depends on the makeup of peer-to-peer (e.g. Airbnb) and big companies (e.g. Zip Car) in the access economy.

Social Credit may become a more powerful determinant of socio-economic inclusion: Rating a user's credibility/trust (social credit), as is currently done by Uber, eBay and many others, is becoming more common. At the same time, new technologies such as blockchain bring new ways of capturing and assessing more information. Together, these developments could lead to new ways of evaluating who should qualify for credit and services, based on algorithms. But there is also the risk for social rating systems to isolate individuals who do not fit into normalized standards of behaviour (e.g. the mentally ill). By 2030, government and stakeholders may need to address new forms of vulnerability and inequality that arise from how we determine "good" and "bad" social behavior.

Links between ownership and social status are becoming unstable: Traditionally, owning expensive goods was a status symbol. If people are able to access solutions rather than buy expensive assets, then this loses meaning. Pay-per-use models could undercut the economic incentive to own goods. Canadians might then take on less debt to live the same or better lifestyles. Status may be reflected instead by accessing products that are difficult to rent or share. In this new environment, reputation might become a new form of "wealth" that could be both more accessible and prone to fluctuations. These forces put pressure on the previously strong link between ownership and social status.


Linkages between ownership and social status are becoming unstable.
Ownership could be displaced or augmented by access to service
Social credit may become a more powerful determinent of socio-economic inclusion

These insights support each other.

Access to services and more peer-to-peer exchanges could make social credit and rating systems more common and important in basic economic interactions, which could reduce the connections between ownership and social status. These changes might be particularly relevant in the emerging gig economy, where more people take short-term jobs or contracts and organizations contract more independent workers.

IMPLICATIONS FOR CURRENT POLICIES

The insights we gained through our scanning activities challenge some of the current beliefs that shape our thinking and policy approaches to capital and debt.

VULNERABLE ASSUMPTION: "REAL ESTATE GROWTH WILL CONTINUE TO SUPPORT CANADIANS IN THEIR OLD AGE."

- If home affordability continues to be a challenge, and more Canadians take part in a gig economy with large pay fluctuations, then home ownership will become more unattainable. If Canadians can access housing more easily through sharing economy platforms or cohousing arrangements, home ownership may decline as a cultural value and asset.

VULNERABLE ASSUMPTION: "THE MAJORITY OF CANADIANS WILL KEEP BUILDING THEIR CAPITAL FROM WAGES."

- Riskier, low-paid work combined with access economy platforms may cause older Canadians to draw more of their income from sharing and renting out their goods than from wages. Automation, gig work, and the merging of global wages will determine how supplemental and passive income affect wages. Without outside supports, Canadians who come of age in these labour market conditions will have few assets to generate passive income, which will favour older workers who received wages high enough to create an asset base.
- If automation destroys jobs at a faster rate than new job creation, a basic income scheme introduced by the government becomes highly plausible. In such a case, wages could potentially decline as a source of wealth creation. More Canadians may be on fixed incomes, which would impact their risk tolerance and how aggressively they invest, as well as the class of assets they could access.

CREDIBLE ASSUMPTION: "FINANCIALLY LITERATE PEOPLE WILL HAVE AN ADVANTAGE OVER THOSE WHO ARE NOT FINANCIALLY LITERATE."

- The advantages of financial literacy could improve over time. If people's sources of income become riskier, those who can budget and allocate capital prudently will likely enjoy more comfortable standards of living and retire comfortably. With fewer resources to invest and manage, the cost of mismanagement will be more severe.

HIGHLY VULNERABLE ASSUMPTION: "CURRENT PATTERNS OF OWNERSHIP WILL CONTINUE: PEOPLE WILL CONTINUE TO PUT A HIGH VALUE ON OWNERSHIP."

- More Canadians may be financially strained and may turn to shared goods and services to cut costs (choosing access to a vehicle rather than owning one could save the average Canadian family almost $3,000 a year).
- More peer-to-peer exchange will likely make accessing goods cheap and fast. Goods that people previously had to buy to enjoy could become more accessible and non-rivalrous (e.g. goods and services that can be used by multiple parties simultaneously).
- Better worker mobility could favour rented goods and services that cut down on resource expenditure. Month-to-month or pay-by-use services are easier to cancel than assets bought through conventional ownership models.

HIGHLY VULNERABLE ASSUMPTION: "THE CASH-BASED ECONOMY IS GOING TO CONTINUE AS THE BASIS OF OUR SOCIETY."

- If more work moves to online platforms that allows workers to complete projects remotely in other countries, cryptocurrencies may become a useful instrument for employers to make cross-border payments.
- If work moves from careers to a series of tasks, payment might become more micro in form. In terms of producing accurate records of work, time, and contribution of micro-jobs, blockchain and related tokens hold an advantage over fiat currencies.

EMERGING POLICY CHALLENGES AND OPPORTUNITIES

Considering the major changes in the areas of ownership and asset sharing, we and our stakeholders explored potential policy challenges and opportunities that may arise in the next 10 to 15 years. The discussion focused on the growing popularity of the sharing and access economies, and what these might mean to diversity and inclusion.

ECONOMICALLY DISADVANTAGED GROUPS COULD BE MORE MARGINALIZED

An access economy model favours those who already own assets. Consumers who have assets can rent them to others, and use the new economy to earn funds from what they own; those without assets may not have that opportunity. Marginalized groups typically do not have assets and/or may not understand how to best profit from them without help. Addressing this challenge might call for measures that smooth transition to the access economy, by reducing disruptive elements, distributing wealth or income guarantees, or providing assets at birth through asset-based social policy. This could ensure that vulnerable Canadians do not start at a significant disadvantage.

INDIGENOUS COMMUNITIES COULD BE PARTICULARLY VULNERABLE

Indigenous peoples often face challenges to participating in the access economy, such as limited access to traditional forms of credit (e.g. credit cards) or bank accounts, lack of initial capital to buy assets for sharing, poor social credit, communities that cannot support an efficient access economy, and the lack of reliable Internet service. The access economy may widen existing economic gaps and hurt reconciliation efforts, as patterns of exclusion and disadvantage are reinforced. These communities and populations may require very different solutions and interventions that are culturally appropriate and acceptable.

TRADITIONAL MEASURES OF SOCIO-ECONOMIC INCLUSION AND ASSOCIATED POLICY TOOLS COULD BECOME LESS RELEVANT

Existing policies, programs, and indicators are mainly based on the idea that building wealth over time is the best way to fight poverty and promote socio-economic inclusion. As today's wealth building model changes into one that encourages networks and assets, current strategies, policies, programs, and indicators may become less relevant in promoting diversity and inclusion. Even home or automobile ownership statistics may become poor measures of socio-economic inclusion.

NEW TECHNOLOGIES AND MODELS CREATE NEW INSTRUMENT CHOICES

Collaborating with entrepreneurs and government can make use of new technologies and ensure that vulnerable Canadians are not excluded as the access economy matures. In particular, blockchain and AI technologies could be used to add existing supports to increase efficacy and accessibility. These same technologies could support the creation of web applications that offer advice on financial and social network literacy. As a result, Canadians would be able to build strong financial and social credit scores, and limit mistakes that could impact their ability to thrive in an access economy. These technologies may unlock the capacity to create asset-based social policies that could ensure vulnerable Canadians do not start at a significant disadvantage and are able to build assets comparable to their well-off counterparts (e.g. similar in intent to the Canada Learning Bond).

POSSIBLE POLICY INTERVENTIONS

To face these potential challenges and take advantage of opportunities, the team proposes two complementary policy interventions meant to help establish a support system for vulnerable Canadians across their life-course, rather than as single interventions or one-off benefits.

INDIVIDUAL WALLETS WITH UNIFIED BENEFITS

The government could create a secure "digital wallet" for every Canadian, which would combine all federal government benefit programs, and offer easy access to them and to related financial information and advice. It would serve as a service window and private bank account, and would use system data to support simplified or automatic enrollment for government programs and services. Benefits would be transferred directly into the digital wallet.

Digital wallets would be created when Canadians apply for a Social Insurance Number (SIN), or those who already have a SIN file their taxes. Canadians could use funds in the digital wallet based on program requirements for which the funds were paid. Unlike now, they would be integrated and tracked by purpose. For example, for educational expenses, available funds could be shown as a single dollar amount taken from the total available through Registered Education Savings Plans, student loans, and Employment Insurance retraining resources. To simplify use, automatic contracts based on blockchain technology could verify and track the conditions for fund withdrawal.

An AI advisor in the digital wallet could help users find and access benefits and programs, and provide financial information and tools. An AI advisor could also help individuals see the future value of their savings and help account holders select opportunities to best use their resources. The system could be integrated with the Canada Revenue Agency to deposit tax refunds and would automatically update program enrollment based on changing personal information. Privacy options could be customized to let individuals decide how their personal information is used.

This intervention would help people access and use government benefits and supports, and ensure assistance reaches vulnerable populations.

INDIVIDUAL ASSET-BUILDING ACCOUNTS

To target programs to those that need them most, the Government of Canada could introduce a new asset-building account in every Canadian's digital wallet to help them participate in the emerging access economy. The government already supports savings for formal education (Registered Education Savings Plan) and in home ownership (Home Buyer's Program). The asset-building account could extend this, building an investment from birth that individuals could access once they are 18 years old, for:

- Education and training
- Starting a business
- Buying a home (or other shareable asset)
- Supporting meaningful volunteer experience, such as Canada Service Corps
- Filling gaps in other social assistance programs, such as extended illness and disability leave or long periods of unemployment

RETIREMENT

For moderately low-income Canadians, the government could match savings, while higher match ratios could be available for lower household incomes. For the lowest-income Canadians, who may not be able to save at all, the government would transfer fixed sums into their accounts rather than matching their contributions. This could encourage saving and asset-building for Canadians, including those with lower incomes, while acknowledging that some struggle to simply make ends meet.

Examples of individual asset-building accounts show early signs of success globally. In particular, Singapore also found that its child-linked IDA programs were also successful in improving postsecondary enrollment and household wealth.

CONCLUDING REMARKS

The access economy could radically change the role of ownership and the creation of wealth. There are significant opportunities to use subscription-based services to access goods and services more cheaply. Passive income streams from "unconventional" assets could help cushion Canadian homes from decreasing wage pressure caused by risky work and automation-related labour displacement. The government will need to provide fast, nimble, real-time supports designed for the changing nature of capital and debt to avoid short-term and expensive debt-financing, and ensure that economic growth includes all Canadians.

CAPITAL AND DEBT

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